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EAST EUROPEAN
REGIONAL ECONOMIC WRAPUP



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This is a product of the Eastern Regional Economic
Issues Branch, East European Division, Office of European
Analysis.

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Comments and questions are
welcome and should be directed to [REDACTED] Chief,
East European Division [REDACTED]

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EAST EUROPEAN REGIONAL ECONOMIC WRAPUP

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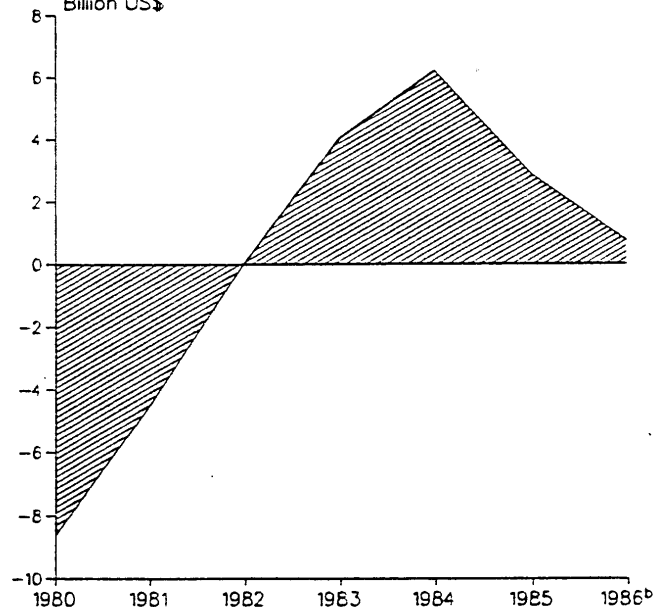
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Current Account Surplus Plunges

Eastern Europe's hard currency current account surplus--exports of goods and services minus imports of goods and services--plunged to \$740 million last year--the lowest level since 1982--from \$2.9 billion in 1985. The \$2.9 billion drop in the hard currency trade balance to a small deficit was the major factor behind the deterioration of Eastern Europe's current account balance. Hard currency imports jumped 13 percent as several countries stepped up purchases of Western machinery to support ambitious modernization programs. Exports rose only 5 percent largely because of soft prices for key exports and weak demand in the Third World. The appreciation of major Western currencies against the dollar helped increase the dollar value of trade conducted in these currencies. Consequently, in real terms the growth in imports and exports probably was smaller than indicated by current dollar values.

- o Hungary's record deficit of \$1.4 billion was the largest in the region. This figure is more than triple the 1985 level and accounts for about half of the region's deterioration in the current account. Budapest recorded a \$540 million hard currency trade deficit as exports sank 8 percent and imports rose 12 percent.
- o Bulgaria slumped to an \$810 million deficit from a small surplus a year earlier. Exports plunged over 20 percent as soft oil prices limited earnings from oil reexports and restricted the ability of Sofia's important customers in the Middle East to buy Bulgarian goods.
- o East Germany's surplus in its current account was nearly halved to approximately \$620 million. The country's trade surplus fell 50 percent as receipts from oil reexports declined and imports of Western machinery and equipment grew 20 percent. East Berlin suffered an increase in its trade deficit with West Germany.
- o Czechoslovakia also sustained a fall in its current account but maintained a modest surplus of \$210 million. Growth of imports--particularly of capital equipment--outpaced exports and caused a 50 percent drop in Prague's trade surplus to \$295 million.
- o Yugoslavia's surplus dropped by nearly one third to \$245 million.

Eastern Europe: Hard Currency Current Account Balances^a, 1980-1986
Billion US\$



^aFigures for Poland based on interest paid rather than interest owed.
^bPreliminary data

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- o we estimate Poland registered a surplus of approximately \$500 million, slightly higher than last year's level.
- o we estimate Romania increased its surplus by more than 50 percent to \$1.3-1.4 billion, the largest in the region. Bucharest persists with its policy of tightly restricting imports and promoting exports to repay its foreign debt. [REDACTED]

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Prospects for improvement in Eastern Europe's hard currency trade and current account balance this year remain poor. Years of neglected investment will force many countries to continue significant purchases of western capital goods--or abandon plans to modernize their economies--and prospects for exports remain grim. Continued weakness in Hungary's current account could sharply limit Budapest's access to new loans and impair its ability to cover debt repayments. Similarly, failure on the part of Bulgaria to reverse its current account performance eventually could threaten its ability to secure new loans, particularly at favorable terms, and force it to abandon some modernization plans. [REDACTED]

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Hard Currency Debt Soars

Eastern Europe's gross hard currency debt rose by nearly \$12 billion to \$100.1 billion at yearend 1986 (see Annex). Net debt--gross debt less foreign exchange reserves--increased by \$10.5 billion to \$83.3 billion. For the second consecutive year, most of the increase reflects the falling value of the dollar against other major currencies, which increases the dollar value of debt borrowed in these currencies. Such growth in debt is largely statistical and does not necessarily indicate a weakened financial status. Continued large borrowing by Hungary to cover its current account deficit also contributed to the sharp growth in Budapest's debt. Similarly, Bulgaria stepped up borrowings from commercial banks to cover its current account shortfall.

Most East European countries modestly increased their foreign exchange reserves last year. The overall increase in the region's reserves was small relative to 1984 and 1985 and part of it reflects exchange rate fluctuations. Apparently the countries' policies of borrowing heavily to accumulate reserves when interest rates were low and funds available has largely ended.

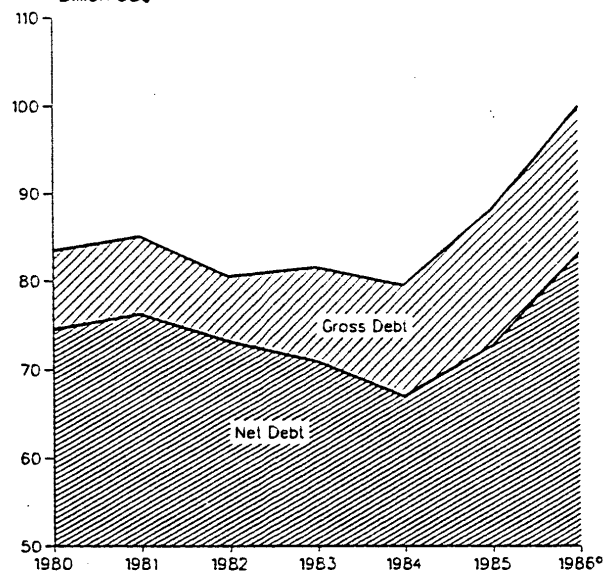
Key developments included:

- o Missed payments contributed to the rise in Poland's debt last year to \$33.5 million, the largest in the region.
- o Yugoslavia owed \$19.4 billion to the west at year-end 1986, a small increase over last year.
- o East Germany's debt jumped 20 percent to \$16.5-17 billion. Nearly all the increase was due to the falling dollar since the share of East Berlin's debt denominated in non-dollar currencies reportedly is the largest in the region.
- o Large borrowings to cover the current account deficit pushed up Hungary's gross debt to \$15.1 billion. Both gross and net debt rose by \$2.3 billion, suggesting Hungary devoted little of its new borrowings to building reserves.
- o Czechoslovakia replaced Bulgaria as Eastern Europe's least indebted country. Bulgaria's new supplier credits and bank-to-bank loans contributed to the sharp jump in its debt to nearly \$4.9 billion. Net debt increased by an

even wider margin as Sofia drained its reserves. We estimate Czechoslovakia's gross debt was \$4.5 billion.

- o Romania was the only East European country to record a fall in its debt, to \$6.0 billion, as President Ceausescu held fast in his determination to eliminate the country's external debt.

Eastern Europe: Gross and Net Hard
Currency Debt, 1980-86
Billion US\$



*Preliminary data

Yugoslavia: The Financial Crunch

Yugoslavia faces the prospect of a liquidity crisis later this year. Belgrade already has received \$1.3 billion in debt relief from Western creditors for 1987, but more is needed. Western governments approved the second phase of their multiyear rescheduling accord in mid-June. The rescheduling had been delayed by Paris Club insistence upon a favorable IMF assessment of Belgrade's economic policies. The accord reschedules \$475 million in official debt falling due over the next 11 months. In late May banks activated the second stage of a multiyear refinancing agreement worth over \$800 million. Even with this debt relief, Yugoslavia will likely face a financing gap of up to \$1 billion in both 1987 and 1988, requiring additional debt restructuring possibly by later this year.

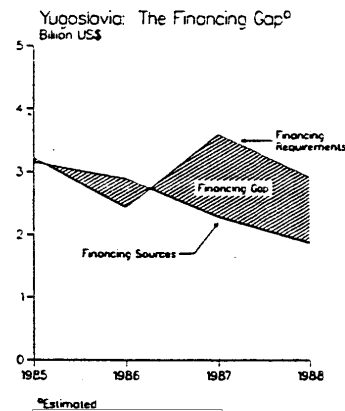
Creditors probably will insist upon tighter external supervision of the economy as a condition for further debt relief. The regime opposes direct policy oversight by the IMF, World Bank, or creditor groups and wants to limit reviews to evaluations of performance rather than compliance with specified policy targets. Creditors, however, doubt the Yugoslav leadership's resolve and ability to implement needed adjustment policies and institutional reforms, including:

- o limiting wage increases, public expenditures, and investment;
- o tightening monetary policy, in particular the issuance of inter-enterprise credits;
- o devaluing the Yugoslav dinar to promote exports and discourage imports;
- o pegging interest rates above inflation rates to promote dinar savings and discourage inefficient investment; and,
- o allowing the bankruptcy of hundreds of unprofitable firms to encourage greater efficiency and export orientation.

Yugoslavia argues that strict implementation of such policies would aggravate inflation and unemployment, risk domestic instability, and depress production and exports. In March workers went on strike in about 70 firms around the country to protest policies to tie wage growth to productivity and rescind some wage increases from last year. In response to worker complaints about reduced living

standards, the Yugoslav government rolled back and froze many food prices. While creditors view these measures as another retreat from Yugoslavia's commitment to economic reform, government officials have tried to turn weakness into strength by citing these problems as grounds for greater Western tolerance of Belgrade's go-slow approach on economic adjustment.

The USSR, which has long warned Yugoslavia against close economic ties to the West, may try to exploit Belgrade's strains with creditors by highlighting Western pressure and by offering it minor trade concessions. The Soviets may try to exploit Yugoslavia's financial difficulties by applying some pressure for closer cooperation. The Soviets ultimately would be unable or unwilling to provide the kind of help needed to resolve Yugoslavia's economic problems, but closer economic ties could provide Moscow greater opportunities for influence.



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Interest in Joint Ventures Meets Western Reluctance

Most East European countries have amended or formulated new joint-venture laws in the past year to improve access to new technology and boost hard currency exports while minimizing expenditures of hard currency. Western businessmen remain wary, however, because of uncertainties about East European treatment of profits and control of operations. The regimes probably will make only limited concessions to attract western firms until they learn how far Moscow is going with its Western joint venture initiatives. The concerns of Western governments over technology transfer may also limit the growth of East-West joint ventures.

Western firms generally face difficult negotiations in arranging joint ventures because their goals often conflict with East European objectives. The firms hope to gain access to domestic and other CEMA markets with repatriation of profits in hard currency. They generally do not share the East European interest in exports to hard currency markets because such ventures would compete with the firms' existing production facilities in the West.

Eastern demands for state-of-the-art technology can run afoul of Western export controls or the unwillingness of some firms to share their most competitive technologies. The risk of transferring technology may be greater with a joint venture than conventional trade arrangements because of the continuing relationship between engineers and scientists. Even if sensitive information is not transferred during the initial setup of the joint venture, it may occur later when the East European firm seeks updated technology to remain competitive in world markets.

Eastern Europe probably will not attract many joint ventures with Western firms until it makes major economic reforms. Unrealistic exchange rates and prices, central allocation of supplies rather than negotiated contracts, and reluctance to use wage incentives to boost worker productivity are key stumbling blocks. Even if they were removed, Western firms would remain wary of capricious changes in their legal rights, especially when they affect the repatriation of profits and investment.

East Europeans are closely watching new Soviet initiatives on joint ventures, particularly the limits

Moscow places on such activities. While most East European countries have had some joint ventures with the West for over a decade, Gorbachev may allow his allies to adopt even more flexible joint-venture policies as a testing ground for Soviet initiatives. Such acquiescence could be tied to Moscow's demands for more East European cooperation in acquiring Western technology and help in achieving Soviet modernization goals.

Eastern Europe: Joint Ventures

EE Country	Changed Joint Venture Laws Since January 1986	Year First Permitted	Number	Permits Western Majority Ownership	Profit Tax Rate (Percent)	Tax Free Period (Years)	Type of Venture
Bulgaria	Yes	1980	6	Yes	20 to 30	3	Machinery, consumer goods, and chemicals
Czechoslovakia	Yes	1985	2	No	50	0	Electronics
Hungary	Yes	1972	80	Yes	20 to 30	5	Banking, tourism, machinery, and manufacturing
Poland	Yes	1976	2	No	50	2	Hotel construction and metals
Romania	No	1971	10	No	40	1 to 2	Machinery and textiles
Yugoslavia	Yes	1967	187	Yes	10	0	Machinery, mining, and agriculture

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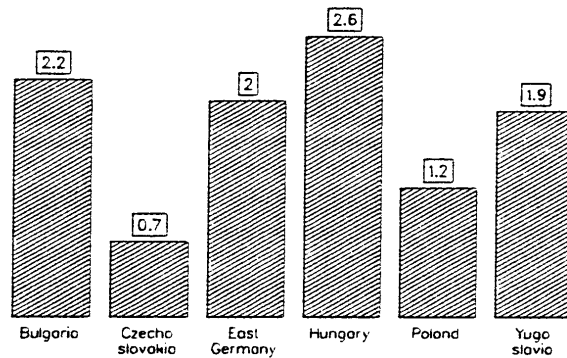
First-Quarter Growth and Trade Results
Generally Disappointing

Several East European economies suffered severe disruptions from the harsh winter, although a few showed slight recovery late in the first quarter. Industrial growth rates for most countries lie below last year's due to the artificially high first quarter 1986 growth rates when compared to the same period in 1985.

- o Czechoslovakia and Hungary lowered their economic plans partly due to weather-related problems. Hungary reported faster industrial growth but continued poor performance in the export sector. Czechoslovak officials sharply criticized the majority of firms for non-fulfillment of plans.
- o Romanian leaders also criticized enterprises, especially in the chemical, non-ferrous metals, and machinery sectors, for failing to achieve plans due to management failures and inadequate organization.
- o Cutbacks in the reporting of key statistics suggest East Germany was off to a slower start than usual. Only two of the 10 industrial ministries fulfilled their plan targets; most fell short by wide margins. The explosion at the Borsberg powerplant and electricity shortages contributed to the plan shortfalls.
- o Polish and Bulgarian industrial growth was higher than last year but below plan. The decline of production in the metals and mining sectors compared to last year could produce a wider slowdown as the year progresses in Poland. Many state orders were not fulfilled by Bulgarian enterprises, contributing to shortages of materials for the domestic and export markets.
- o First quarter industrial production in Yugoslavia increased despite poor results in January, although output declined in the metals, non-metals, and energy sectors. Production probably was hurt at least marginally by recent strikes over government wage restraints.

We still do not have complete first quarter trade data, but Hungary, Poland, and Czechoslovakia admit their trade plans were not fulfilled.

Eastern Europe: Industrial Production,
First Quarter 1987 Compared to First Quarter 1986^a
Percent



^aData is adjusted from East European country data. Romania has not published 1st quarter data.

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- o Budapest had a \$114 million deficit in the first two months of this year, compared to a \$17 million deficit in the same period last year.
- o Poland earned a \$200 million surplus in the first quarter--about the same as last year. Hard currency imports, however, increased by 14 percent, probably due to increased purchases of machinery from the West, while hard currency exports rose only 4 percent.
- o Czechoslovak sales to the West fell almost 8 percent while imports rose 5 percent, again most likely due to purchases of capital goods.
- o Yugoslavia's hard currency exports rose almost 5 percent while Belgrade reduced imports nearly 9 percent. The trade deficit of \$320 million was smaller than last year's first quarter deficit.



On the basis of even sparser information, Eastern Europe probably ran a trade deficit with the USSR. Poland's exports to and imports from these countries rose 3 percent each, but Warsaw ran about a 100 million ruble deficit. Czechoslovak trade was behind last year with about a 3 percent decrease in both exports and imports. 

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Once the imbalances caused by the winter are corrected, Eastern Europe may find its economic growth will pick up later this year, but not by enough to fulfill economic plans. Other problems may later surface to prevent a rebound. The harvest could be lower this year because of late spring sowing due to the weather, the drought in some countries could impair hydroelectric energy production, and earlier production shortfalls could contribute to supply bottlenecks which could persist for several more months and lead to lower production. 

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Worsening Pollution Heightens Environmental Activism

Most East European regimes now acknowledge the seriousness of pollution in their region--after decades of neglect--and are implementing some measures to ameliorate the problem, including purchases of Western anti-pollution equipment. Environmentalism has considerable support among younger Party members and youth groups in some countries. Despite plans to boost spending on pollution controls, most regimes lack the political will and financial resources to significantly reduce pollution levels, and all remain suspicious of environmental movements in their countries.

Recent ecological calamities affecting Eastern Europe--acid rain, fallout from Chernobyl, and leaks of toxic wastes--have increased the sensitivity of East Europeans to pollution dangers. The heavy use of coal has caused acute air pollution in the industrial belt running through southern East Germany, southern Poland, and Czechoslovakia. Czechoslovak residents of an industrial district, in an unusually open display of discontent, recently petitioned local authorities to control air pollution that has caused health problems among children.

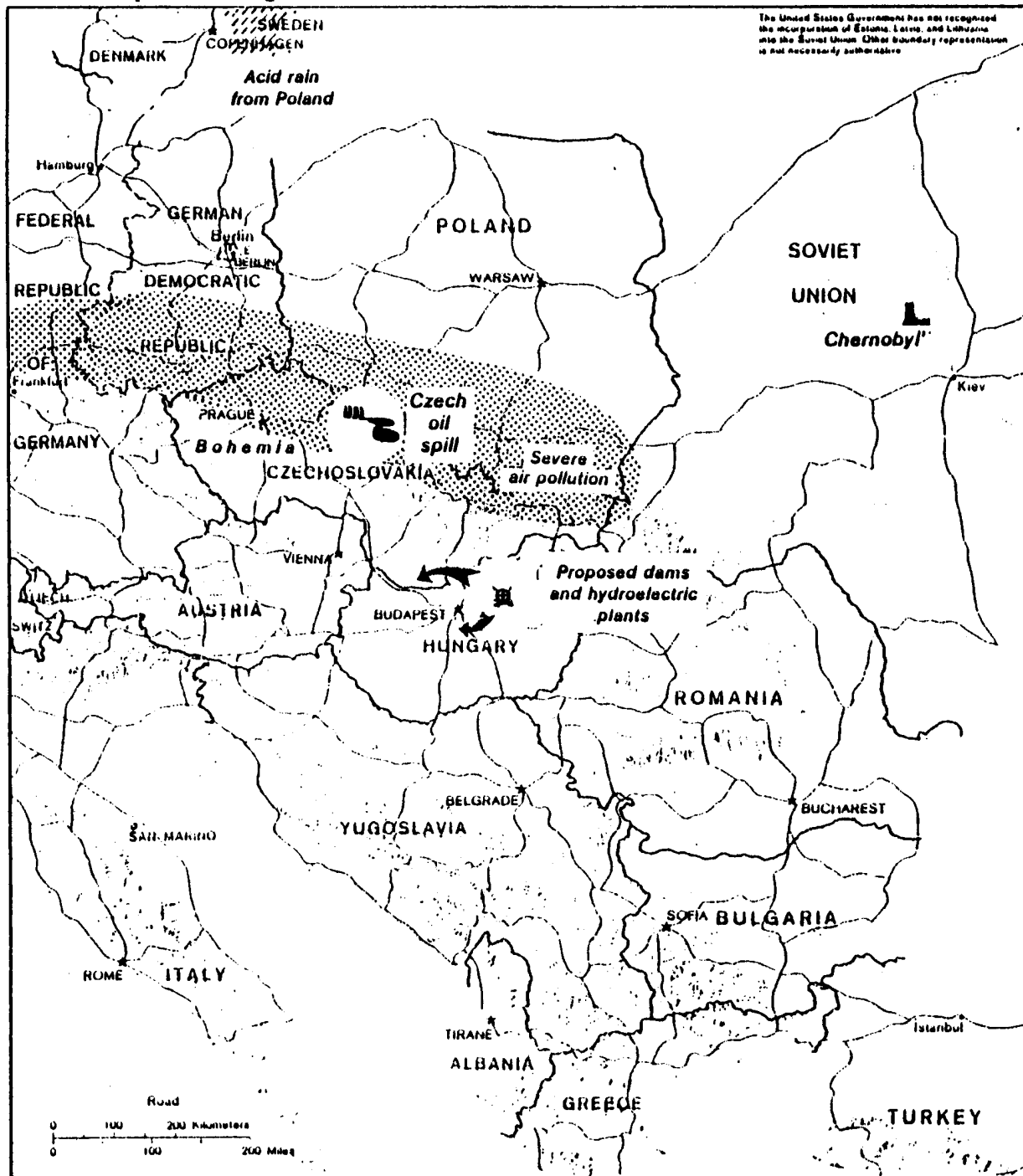
Environmental groups advocate an agenda that, if enforced, would seek to limit traditional Communist policies such as rapid growth of heavy industry. Some East European environmental groups have established contacts with their Western counterparts--particularly the West German Greens--for guidance, publicity, and support. Most environmental groups also have found receptive audiences for their message among more traditional human rights, pacifist, and church groups. For example, the Polish dissident group Freedom and Peace, initially a conscientious objector group, has become actively anti-nuclear since Chernobyl.

The East European leaderships traditionally have been reluctant to face these issues. They fear anti-pollution measures would drain resources from top priority goals, such as rapid industrialization and economic growth. The leaders also doubt an environmental campaign would prove effective. The small size of the countries means their efforts could be negated by pollution from neighboring states or benefit others more than themselves.

Even when regimes openly acknowledge the seriousness of the problem, their anti-pollution efforts seem unlikely to yield much improvement. Governments have set unrealistic goals for conservation of coal, which would save fuel and reduce air pollution. East Europeans hope to substitute nuclear power for coal-fired plants, but popular fears, program delays, investment shortages, and a lack of expertise are hobbling nuclear programs. Some regimes are exploring the possibility of importing pollution-control equipment from the West. East Germany, for example, last year purchased desulfurization equipment from a British firm for a lignite-fueled power station. But the regimes lack the financial resources and the will to tackle the pollution problem head on and will probably continue efforts to ameliorate the problem through selective and highly-publicized investments designed to soothe popular fears and minimize political damage from environmental criticism.

The failure thus far to combat pollution effectively suggests the only solution is increased governmental cooperation. So far, however, pollution has increased friction between the countries and recriminations over blame for the problem. For a concerted East European effort to begin, we believe Gorbachev would first have to make a strong commitment to environmental issues and encourage CEMA to follow along.

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Eastern Europe: Worsening Pollution

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Public Concerns About Chernobyl: Still Great

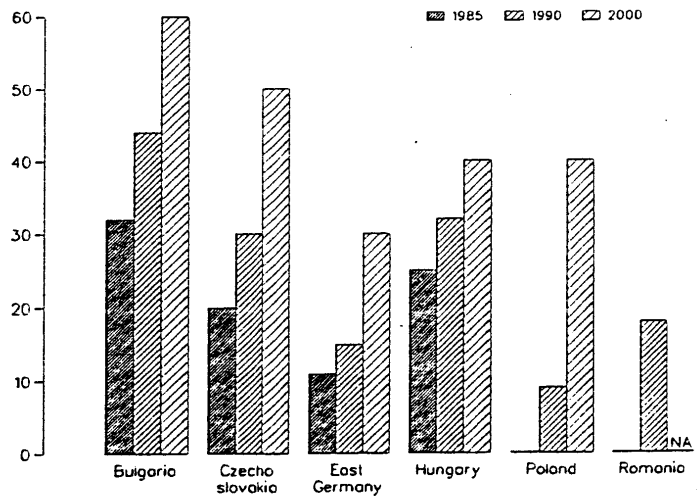
Eastern Europe has largely overcome the immediate costs of the Chernobyl accident--lost earnings from reduced food exports and tourism and diminished power supplies--but heightened concern about the dangers of nuclear power will prove the most lasting legacy for Eastern Europe. This will complicate the region's efforts to solve its energy problems. While the accident strained Eastern Europe's relations with Moscow and hurt government credibility domestically, it has not altered political relations within the region.

Most East European regimes remain committed to expanded use of Soviet-designed nuclear plants, but they are boosting investments in nuclear safety, including purchases from US and other western vendors. (1) At a meeting of the CEMA nuclear working group last November, seven months after the accident, the region agreed to plans for a six-fold increase of nuclear capacity from the current 6,000 megawatts (MW) to 50,000 MW by the year 2000. This reaffirmation is significant because East European nuclear construction programs were already lagging from cost overruns and shortages of funds, key materials, and expertise. Yugoslavia is the only East European country in which a broad-based resistance to nuclear power has forced the postponement of plans to build nuclear power plants.

Public anxiety about the accident has forced regimes to show greater concern about the risks of nuclear power. The official media have reiterated the necessity of nuclear power, stressed the safety of their reactors, and publicized new measures to ensure reactor safety. Some future plants will be situated in remote areas with containment buildings and more reliable cooling systems. Most countries are seeking nuclear safety technology and consulting services from western firms--most of which is not COMCON-controlled--particularly in computer simulation, risk assessment, and monitoring systems. The Bloc probably also will seek sensitive computer equipment and software, which are not necessary to improve safety, but which probably would be passed to the Soviets.

Eastern Europe's newly found interest in western nuclear safety technology will not lead the regimes to shift procurement from Soviet-designed reactors to western ones. The regimes cannot afford the large hard currency expenditures and extended program delays such a shift would entail. Energy officials generally believe Soviet-designed plants can be made safe by acquiring western safety technology and services while keeping construction delays and hard currency costs manageable.

Share of East European Electricity Output From Nuclear Power: 1985, 1990^a, 2000^a
Percent



^aThese projections by the regimes should be treated with caution. The East Europeans have fallen short of past construction goals, and current building of reactors is beset by delays. Sources: Press and Official Statistics.

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Population Trends Portend Woes

Declining birth rates in Eastern Europe will adversely affect economic performance and may contribute to political problems in some countries. To offset the demographic problems, governments have implemented pro-birth policies which so far have resulted in only minimal increases in birth rates.

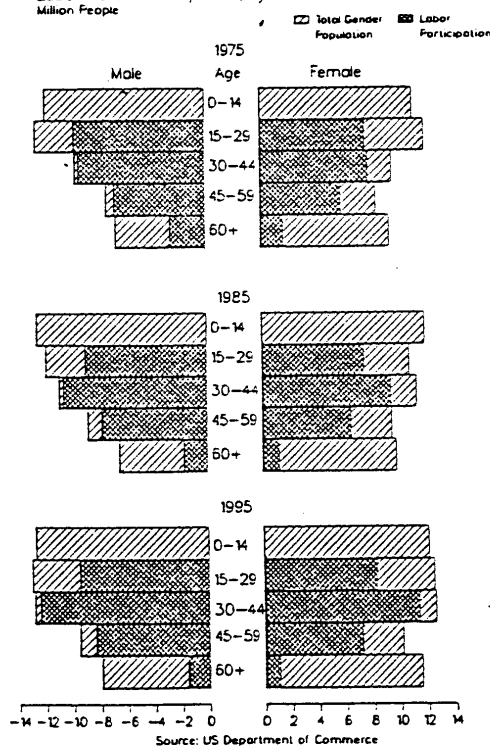
- o In the late 60's and early 70's, rates of natural population growth declined for the first time in post-war Eastern Europe, and this decline continued into the 1980's.
- o East Germany's population fell to 16.6 million in 1986, a decline of 500,000 in 16 years.
- o Hungary's labor force has declined steadily since 1975, and this trend is projected to continue for the next few decades.
- o Czechoslovakia and Bulgaria's population growth rates have stabilized near replacement levels.
- o Poland and Romania's population growth rates are declining to replacement levels.

Because of these trends, the percentage of population over 45 has increased in the last 10 years, and it will reach 34 percent by 1995.

Stable, aging populations have important implications for the region's economic prospects:

- o The low birth rate means Eastern Europe will have to draft 60 percent of 16-year old males to fulfill current military manpower requirements, compared to 40 percent in the early 1970s. Consequently, fewer youth will be available for the industrial labor force.
- o When economic planners find they cannot obtain sufficient infusions of new labor to boost economic growth, they will be forced to seek methods to obtain productivity growth from the same or a declining labor pool. Some regimes may impose tighter labor discipline; others will experiment with incentives. This also explains why so many of the regimes are pushing the development of automation and materials-handling techniques.

Eastern Europe: Distribution of Population and Labor Force Participation, by Gender



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- o Older workers will constitute a larger proportion of the labor force. In some industries, this could help boost labor productivity, but in others, this could create pockets of excess labor where the workers cannot be easily retrained for totally different occupations.
- o The demand for government-sponsored welfare and medical services will increase as the population ages. This will divert manpower and investment to sectors the regimes view as non-productive. This effect may be attenuated with some decline in the need for education, but it is not clear how mobile labor resources are between the two service categories. [REDACTED]

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Some countries also face political problems due to the higher birth rate among their minorities. The Turkish minority in Bulgaria and the gypsies in Czechoslovakia and Hungary are of special concern to those regimes. Officials probably are worried that a larger proportion of minorities will increase the influence of these segments in the population. The regimes view these minorities as more difficult to integrate into urban areas and the industrial labor force and as less productive workers. [REDACTED]

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In response to the declining birth rates, East European regimes have implemented various pro-birth policies. Monetary incentives such as larger child allowances, tax breaks, and longer maternity leave with greater pay are used to encourage higher birth rates. In addition, some countries have restricted access to contraceptives and abortions--in Romania, both are considered illegal. These new incentives initially produced small increases in birth rates, but the increases may prove temporary because they do not relieve core problems affecting population growth, such as low standard of living, crowded housing, and unavailability of consumer goods. [REDACTED]

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Pro-birth policies bear economic costs that the regimes may be unwilling or unable to afford. Output in some industries employing large numbers of women, such as processed foods and textiles, would suffer if many are absent for extended maternity leaves. A high birth rate would require expending resources devoted to child care and education. Housing construction programs designed to promote larger families would divert scarce investment resources to an activity many of the regimes typically have considered of minor importance. [REDACTED]

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Use Official Data With Caution

Recent allegations by some Western experts of deliberate tampering with official data have renewed skepticism about the reliability of East European economic indicators. The increasing frequency of regime changes against plant managers for falsifying their statistical reports have cast further doubt on the region's statistics. Although the quality of statistics is suspect for all countries in the region (including the USSR), the problem is most acute for Romania and East Germany. Biases in the data could compromise our ability to analyze these economies, but fortunately various procedures are available to reduce the distortions.

Hungary, Poland, and Yugoslavia probably have the best statistical reporting in the region in terms of scope and consistency. They are more likely to publish detailed foreign trade or social statistics than the other regimes which generally withhold this information for political or military reasons. In part, the relative frankness has resulted from pressures by Western creditors to reveal data to qualify for loans and reschedulings. Also, it is no coincidence that leaders in these countries have been most candid in admitting their economic problems.

Nevertheless, the quality of official statistics frequently falls below Western standards. For example, fixed statistical exchange rates used in compiling Yugoslav foreign trade data complicates analysis, but this problem has been corrected this year in response to IMF pressures. Most East European countries publish only meager details for sensitive data such as single-line budget entries for defense expenditures which many Western analysts believe that figure have little, if any, real meaning.

East European statistical authorities are not only the perpetrators of misleading statistics but are also the victims of the figures provided them. They cite disorderly enterprise records and carelessness in filling out statistical forms as the most significant sources of error in official data. Some plant managers misrepresent performance results to gain financial rewards for achieving plans or to conceal shortfalls in production.

Romanian data probably are the worst in the region. Operating in a Stalinist-style economy where penalties for

shortfalls may be severe, data are more likely to suffer from outright distortions both at the enterprise and statistical bureau levels. We also believe the methodologies used by Romanian statisticians bias official reports of key economic variables upward, partially for propaganda reasons.

East Germany has one of the poorest records of disclosing data. Policymakers in this country undoubtedly have access to highly detailed data, but the statistics released to the general public are relatively scant. East Berlin's statistical bureau, for example, still treats information about the country's balance of payments as secret and often omits publication of unfavorable data until the situation improves or the information can be hidden in statistics released later.

The meager data released may not give accurate accounts of economic performance. One East German economic expert complained that his country's statistics overstated economic growth, possibly significantly. The reason cited for this bias, however, was not deliberate distortion but flaws in the methodology, particularly in accounting for inflation.

Official Czechoslovak and Bulgarian data are, by East European standards, of average quality--detailed, but not particularly revealing about sensitive issues. Bulgarian economic data are especially prone to inconsistencies in presentation from year to year, and its social data conceal the role of ethnic Turks in the country. For both countries, frequent changes in underlying indices are often used to present economic performance in a more favorable light. As with most other countries, statistical methodologies are often not publicly documented nor are they necessarily consistent from year to year.

Problems with official statistics could easily frustrate our efforts to analyze the performance of these countries, particularly levels of output and economic growth. For this reason, government analysts and academics carefully sift through the evidence, evaluate the quality of different statistics, and decide upon approaches to improve them. While the resulting Western estimates are not perfect, precise estimates are not needed to assess broad economic trends. A large part of this information is released on an unclassified basis in the annual edition of the Handbook of Economic Statistics.

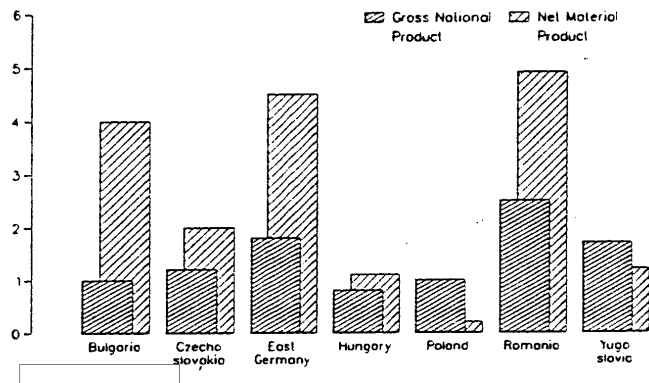
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Our estimates of GNP are one example of alternative measures and illustrate reconstructed statistics. They are constructed from statistical samples of official data and adjusted to Western concepts. Past tests of methodology, when applied to countries for which data are relatively abundant and of good quality, confirm that this approach produces reliable estimates.

The CIA measures of GNP indicate that economic growth in most of the East European countries is slower than the regimes claim with their own measure, National Income Produced (NIP). This is primarily due to the different way services, prices, and depreciation are handled in the two accounting systems. In comparison with GNP measures, NIP estimates:

- o exclude as nonproductive most services, including housing, education, and consumer services.
- o underestimate official price increases from changes in product quality and the introduction of new products.
- o deduct depreciation from gross fixed capital formation.

Eastern Europe: GNP & NMP Growth Rate, 1980-86
Average Annual Percent Growth



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EASTERN EUROPE: Hard Currency Debt, 1985 and 1986* (Million US \$)

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	1985	1986

Eastern Europe		
Gross Debt	88180	100060
Commercial	46940	54950
Official	33200	37060
IMF/WB/Other	8040	8050
Reserves	15470	16810
Net Debt	72710	83250
 Bulgaria		
Gross Debt	3610	4880
Commercial	3060	4150
Official	550	730
Reserves	2090	1380
Net Debt	1520	3500
 Czechoslovakia		
Gross Debt	3830	4480
Commercial	2840	3380
Official	990	1100
Reserves	1010	1220
Net Debt	2820	3260
 East Germany		
Gross Debt	13900	16750
Commercial	10000	12850
Official	3900	3900
Reserves	6490	7450
Net Debt	7410	9300
 Hungary		
Gross Debt	11760	15090
Commercial	9760	12380
Official	830	1090
BIS/IMF	1170	1620
Reserves	3000	3080
Net Debt	8760	12010
 Poland		
Gross Debt	29300	33500
Commercial	10600	12100
Official	18700	21400
Reserves	1590	1720
Net Debt	27710	31780
 Romania		
Gross Debt	6600	6000
Commercial	2900	2700
Official	1100	1100
IMF/WB/CEMA Banks	2600	2200
Reserves	200	500
Net Debt	6400	5500

Yugoslavia		
Gross Debt	19180	19360
Commercial	7780	7390
Official	7130	7740
IMF/WB	4270	4230
Reserves	1090	1460
Net Debt	18090	17900

* Preliminary

SUBJECT: East European Regional Economic Wrapup

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